

FREQUENTLY ASKED QUESTIONS AND ANSWERS

FOR

MULTIFAMILY HOUSING PROJECT OWNERS

AND

AUDIT PRACTITIONERS

REGARDING

ELECTRONIC SUBMISSION

OF

ANNUAL PROJECT FINANCIAL STATEMENT

AND

AUDIT INFORMATION

TO

HUD'S

REAL ESTATE ASSESSMENT CENTER

JANUARY 11, 1999 (Q&As 1-12)
Revised on May 7, 1999 (Q&As 13-18)

FAQ&As ON ELECTRONIC SUBMISSIONS OF ANNUAL FINANCIAL STATEMENT AND AUDIT INFORMATION TO HUD'S REAL ESTATE ASSESSMENT CENTER

Question No. 1 - Do all HUD-supported multifamily housing projects have to submit annual financial statement and audit information to the Real Estate Assessment Center's (REAC) Financial Assessment Subsystem (FASS), under the September 1, 1998 rule on Uniform Financial Reporting Standards for HUD Housing Programs?

Answer No. 1 - No. REAC is only collecting financial statement and audit information from projects that have an existing regulatory or contractual obligation to submit annual financial statement and audit information to HUD. This excludes many projects that only receive Project-Based Section 8 Program assistance under Housing Assistance Payment (HAP) contracts that do not contain an addendum requiring the reporting of annual financial statement information to HUD.

Question No. 2 - Do all projects with annual financial statement and audit submission requirements have to submit their information to REAC electronically?

Answer No. 2 - Eventually, yes. However, the FASS cannot currently accommodate submissions from nursing home projects operating under lessor/lessee arrangements. Those projects should continue to submit hard copy financial statements and audits to REAC until further notice.

Question No. 3 - Do projects owners still have to produce and maintain hard copy audited financial statement reports, given HUD's new electronic submission requirements?

Answer No. 3 - Yes. REAC is collecting supplemental financial and compliance data related to the audited financial statements, as well as certain audit information, but not the full audit report, or necessarily the actual audited financial statements themselves. Therefore, hard copy financial statement audit reports should still be prepared and maintained as previously required by HUD Handbook requirements, except that the reports no longer have to be submitted to HUD, unless requested. The information on the FASS submission templates or screens can be printed or replicated for incorporation in the audit report, in lieu of the supplemental schedules previously produced in the hard copy audit report. Most project owners need an annual audit report for non-HUD purposes, such as obligations to limited partners, lenders or servicing mortgagees, and other fiduciary responsibilities.

Question No. 4 - Can project owners with more than one HUD project make one submission of consolidated financial statement and audit information?

Answer No. 4 - No. Supplemental financial and compliance information is required at the project level to enable HUD to monitor and enforce compliance with applicable program requirements such as surplus cash calculations and distributions, reserve for replacement and residual receipts deposits, management fee limits, etc. A current exception are housing cooperatives, who will initially be allowed to submit a consolidated submission for multiple projects, pending further policy deliberation and study of the need to enforce project specific information requirements next year. REAC is considering the development of submission screens for next year that would accommodate consolidated statement situations in a manner that would capture supplemental data on multiple projects from a single owner submission. For this first year, individual project submissions are required, except for cooperatives.

Question No. 5 - Who is responsible for the electronic submission of required annual financial statement and audit information to REAC, and who is permitted to actually prepare and make the submission?

Answer No. 5 - The project owner is responsible for assuring that the electronic submission is complete, accurate, and timely, in accordance with their regulatory and contractual obligations to HUD. Project owners agree to a “Program Participant’s Use Agreement Regarding Electronic Data Submissions for HUD Programs” when they accept and place into use a systems identification (ID) number for HUD’s Secure Connection System, enabling them to access and submit to FASS and other HUD systems. Project owners can be their own HUD Secure Connection Coordinator or rely on their own staff, management agent, project auditor or other service provider to perform the coordinator function to control access to HUD systems on the owner’s behalf. Likewise, the project owner can be a FASS User for the electronic preparation and/or submission of project data, or authorize other FASS Users, such as their own staff, a management agent, or project auditor, to play a role in the preparation, proofing or submission of data to REAC through FASS. FASS is very flexible in that the project owner or their Secure Connection Coordinator can work in conjunction with any combination of FASS Users they authorize, to prepare and approve draft submission data before it is actually submitted to HUD in final form.

Question No. 6 - How will REAC assure that the data submitted by the owner is the same as the information contained in the hard copy audit report?

Answer No. 6 - While the project owner is responsible for assuring that the electronic submission is complete, accurate and timely, REAC will expand the reporting compliance check performed by the project auditor to include a verification of the prior year’s electronic submission as part of the current year’s audit. To perform the check, the project auditor will require “read only” access to the project owner’s submitted data in FASS. Such access will be feasible by next year’s audit. Project auditor engagement letters for next year’s audit should require the project owner to provide “read only” access to the project auditor through the HUD Secure Connection System. In situations where

the project owner is already using the project auditor to handle the electronic submission on its behalf, this will not be necessary. REAC also has a Financial Assessment Quality Assurance Staff that will verify the completeness and accuracy of submissions as part of their on-site reviews of project records and auditor workpapers, on both randomly and judgmentally selected projects and auditors. These random checks will include owner certified submissions on small non-profit projects that are under the \$300,000 funding limit for requiring an audit.

Question No. 7 - When are project owners expected to begin submitting their required annual financial statement and audit information electronically to REAC?

Answer No. 7 - All required annual financial statement and audit information applicable to multifamily project fiscal years ending December 31, 1998, and thereafter, must be submitted to REAC electronically, through the FASS. Normally, financial statement and audit information required of profit motivated and limited distribution projects is due within 60 days after the end of the fiscal year. The Single Audit Act gives non-profit projects the option to submit required audited financial statement information up to nine months after the end of the fiscal year. However, non-profits are still required to submit unaudited "owner certified" information to REAC within 60 days after the end of their fiscal year. To give project owners and auditors time to understand and implement the REAC's new electronic submission requirements, projects with fiscal years ending between December 31, 1998 and March 31, 1999, have been given an extension until June 30, 1999 to make their first electronic submission to REAC. Thereafter, submissions are expected to adhere to normal time requirements, unless an extension request is submitted through FASS and approved by REAC. Such extension requests will not be possible through FASS until after May 31, 1999.

Question No. 8 - Do project owners submitting annual audit information to REAC still have to submit hard copy audit reports to the OMB Clearinghouse, if previously required to do so under the Single Audit Act and OMB Circular No. A-133?

Answer No. 8 - This year, yes. However, for those projects that only receive federal assistance from HUD, REAC will approach OMB about the prospect of eliminating this requirement in the future, since HUD will have already electronically received the annual financial statement and audit information it needs to monitor its programs.

Question No. 9 – How do small profit motivated and limited distribution projects developed under HUD Notice 97-4 submit to REAC, given that they are only required to submit unaudited owner certified annual financial statements, and FASS currently only accepts unaudited owner certified submissions from non-profits?

Answer No. 9 – This first year, this small group of projects will have to submit hard copy statements to REAC. In the second year REAC will have electronic submission screens to accept profit-motivated and limited distribution owner certified statements.

Question No. 10 - Will HUD be issuing revisions to HUD Handbooks 4370.2, Financial Operations and Accounting Procedures for Insured Multifamily Projects, and IG2000.04, Consolidated Audit Guide for Audits of HUD Programs?

Answer No. 10 - Yes, revisions are in process. In the interim, the existing handbook requirements should be used in conjunction with the supplemental guidance provided on REAC's web site (<http://www.hud.gov/reac/reafin.html>) regarding multifamily housing project "Chart-of-Accounts" changes, information on the electronic submission requirements, and the content of these Q&As.

Question No. 11 - What new compliance checks and reporting requirements are there for project auditors?

Answer No. 11 - The basic audit compliance checks required in IG2000.04 and the OMB Circular No. A-133 Compliance Supplement are still required. However, auditors will now be required to provide a compliance finding code associated with any compliance finding, to enable the FASS system to interpret the type of finding. Both the code and the full text of the finding are required to be submitted via FASS. The codes and the code descriptions related to required compliance review areas are as follows:

Code	Condition
A	Unauthorized withdrawals from replacement reserve account
B	Failure to make required residual receipts deposits
C	Unauthorized withdrawals from residual receipts account
D	Commingling of funds
E	Unauthorized change in ownership
F	Acquisition of liabilities (encumbering project assets)
G	Unauthorized loans from project funds
H	Unauthorized distribution of project assets
I	Failure to maintain the property or to cure deficiencies noted in physical inspections.
J	Unauthorized Management Fees
K	Electronic submission verification
Z	Other

While FASS has indicator boxes to provide the various types of audit opinions expressed in the audit report, the system does not capture the narrative associated with the audit opinions, therefore, any opinions other than unqualified will need to be described in a separate finding write-up to describe the nature of any qualifications. The text of all findings is to be input to HUD via FASS.

Question No. 12 - Will HUD be providing any guidance or training on FASS and the new electronic submission requirements?

Answer No. 12 - Yes, an Industry User Guide is available on REAC's web site, a Distance Learning Satellite Broadcast is being planned for January 29, 1999, and presentations are planned to be made at various affected industry groups.

Question No. 13: Since some project auditors will not be participating in HUD's electronic submission process, and others may have to wait for project owners to successfully register with HUD's system and provide them systems user ID numbers before they can access submission screens, is there some way that auditors can get an advance viewing of the submission screens to enable them to plan their audits and format their hard copy audit reports in a manner that will adequately support HUD's new electronic reporting requirements?

Answer No. 13: Yes, REAC has posted demonstrations of the Financial Assessment Subsystem (FASS) submission screens as a new item on its Internet web site at <http://www.hud.gov/reac/reafin.html>.

Question No. 14: Is there any size limitation on the narrative fields in FASS, and can the information in those fields be printed out for purposes of proofing and providing a documented record of a project owner's submission?

Answer No. 14: There is no limitation on the size of the narrative that can be placed in any of the narrative submission boxes. However, if the narrative exceeds the size of the data input box on the computer screen, you will not be able to print the full narrative at that time. Since you are printing from an html view in Netscape, you can only print the text that is actually showing in the input box on the screen. However, you can later print the full narrative from the "list" option, after data validation, and can return to the data entry screens for any necessary changes, prior to final data submission to HUD.

Question No. 15: Given that the AICPA does not prescribe a standard format for Notes to the Financial Statements, and that many project audit reports may not present the notes in the same format prescribed by the FASS submission templates, do project owners have any flexibility in how the Notes are input into FASS, to avoid having to cut and paste the actual Notes in a manner that may distort the actual presentation and meaning?

Answer No. 15: FASS allows that the Notes on Organization and Presentation, and Significant Accounting Policies, can be combined and submitted in Account # S3100-010, as actually presented in the hard copy audit report. However, the Notes on Prior Period Adjustments, Mortgages Payable, Notes Payable and Related Transactions must be separately input in the fields provided, when they are applicable, because the FASS business rules and assessment processes require the input of specific supporting details

for these 4 types of Notes. All “Additional” Notes may be combined and submitted as actually presented in the audit report, through input to the first narrative input box for Additional Notes.

Question No. 16: Can HUD address the reason and solution for unspecified systems error messages and crashes that some FASS users have experienced when attempting to list or print data in narrative fields?

Answer No. 16: HUD is aware that some users have experienced problems with the application, particularly regarding the list function that is required after statement data validation. These problems were related to information that had been copied from Word or other high level word processing applications into the templates. In some instances, the list function has been spinning continuously, causing the application to stop running. HUD believes that this problem was fixed with an updated release of the system on March 27, 1999. This release changed the manner in which statement data is listed, avoiding the possibility of reading unrecognizable hidden characters within the text that might cause the application to stop. This “fix” has been successfully tested with text copied from Word Perfect, Word, and Excel.

Question No. 17: Given that revisions to HUD Handbook No’s 4370.2 and 2000.04 have not yet been issued to reflect REAC’s new electronic reporting requirements, what is the authority that auditors should cite when they follow the new reporting format reflected in the FASS templates, and what is the impact if auditors continued to follow the format prescribed in the existing Handbooks?

Answer No. 17: Auditors can site the new rule on “Uniform Financial Reporting Standards for HUD Housing Programs,” and the accompanying “Industry User Guide for the Financial Assessment Subsystem - Submission (FASSUB),” as the basis for the new format of the supplemental financial data related to the audited financial statements. If auditors continue to use the old presentation format prescribed by HUD Handbooks 2000.04 and 4370.2, the substance of the information is the same, and therefore should still facilitate the owner’s electronic submission of required information through the FASS. Regardless of the format of the presentation of the supplemental project financial data, the information and the related audited financial statements must be based on the revised HUD Chart of Accounts for multifamily housing projects. The Chart of Account revisions are reflected in the Industry User Guide for FASSUB, and are provided in a side-by-side comparison with the old Chart of Accounts in a document entitled “HUD Guidelines on Multifamily Housing Financial Reporting Revisions,” which is also available on REAC’s Internet web site.

Question No. 18: Does the new rule on Uniform Financial Reporting Standards for HUD Housing Programs have any effect on the definition of the reporting entity defined in the

November 18, 1997 Federal Register notice, for purposes of complying with the requirements of OMB Circular A-133?

Answer No. 18: For FASS reporting purposes, the reporting entity remains the “project.” In most cases, HUD-assisted multifamily projects are legally established as single asset owning entities. In those cases where an owning entity has been allowed to own more than one project, the supplemental financial data that must be reported through the FASS is still required at the individual project level.